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10 Attorneys for Citibank, N.A.

11 UNITED STATES BANKRUPTCY COURT
12 NORTHERN DISTRICT OF CALIFORNIA
13 SAN FRANCISCO DIVISION

14 In re) CASE NO. 11-31376-DM
15)
16 Howrey LLP,) Chapter 11
17) **DECLARATION OF G. MICHAEL**
18 Debtor) **VERDISCO IN SUPPORT OF THE**
19) **MOTION OF CITIBANK, N.A. FOR**
20) **ENTRY OF AN ORDER CONVERTING**
21) **THE DEBTOR'S CHAPTER 11 CASE TO**
22) **A CASE UNDER CHAPTER 7 OF THE**
23) **BANKRUPTCY CODE, OR, IN THE**
24) **ALTERNATIVE, APPOINTING A**
25) **CHAPTER 11 TRUSTEE**
26)
27) Hearing Date: September 21, 2011
28) [Requested]
Time: 9:30 a.m.
Place: Courtroom 22
235 Pine Street, 19th Floor
San Francisco, CA 94101
Judge: Honorable Dennis Montali

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2 I, G. Michael Verdisco, declare as follows:

3 1. I am a Director at Gulf Atlantic Capital Corporation ("Gulf Atlantic"). On March
4 21, 2011, Gulf Atlantic was retained by the law firm of Blank Rome LLP to serve as its financial
5 advisor in connection with Blank Rome's representation of Citibank, N.A. ("Citibank") in
6 Citibank's capacity as a secured lender to Howrey LLP ("Howrey" or the "Debtor").
7 Subsequently, Paul, Weiss, Rifkind, Wharton & Garrison LLP ("Paul Weiss") replaced Blank
8 Rome as counsel to Citibank, and Gulf Atlantic thereafter executed an engagement agreement
9 with Paul Weiss on May 3, 2011 to serve as its financial advisor. I have been actively involved
10 in all aspects of Gulf Atlantic's engagement since March 21, 2011 and have been involved in
11 many of the discussions among Citibank, Paul Weiss, the Debtor and the Creditors' Committee¹
12 since that time. As a result, I am familiar with the wind-down of the Debtor's business, the
13 Debtor's current financial condition and the negotiations that have occurred between Citibank,
14 the Creditors' Committee and the Debtor since Gulf Atlantic's initial engagement.
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17 2. Since its retention, Gulf Atlantic has, among other things, (i) reviewed, and
18 provided input with respect to, the Debtor's wind-down budgets, including staffing and payroll,
19 (ii) reviewed, and provided input with respect to, the Debtor's weekly cash flow projections,
20 including receivable collections and disbursements, (iii) prepared estimates of Citibank's
21 recovery, and (iv) monitored the Debtor's actual cash disbursements and receipts.
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23 3. I believe the Debtor has incurred substantial diminution in the value of its estate
24 since the Petition Date. Specifically, the Debtor has incurred approximately \$5.8 million in
25 administrative costs since the commencement of the case. However, this is a liquidating case
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27 ¹ Capitalized terms used and not defined herein shall have the meanings ascribed to such terms in the
28 memorandum of points and authorities, filed concurrently herewith.

1 and the Debtor is essentially no longer operating or generating any new accounts receivable to
2 fund these substantial costs. Accordingly, all of the Debtor's administrative costs are being
3 funded from Citibank's cash collateral – cash and ongoing collections of accounts receivable –
4 which means there has necessarily been a substantial and continuing diminution in the value of
5 the Debtor's estate.

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7 4. Similarly, I believe that Citibank's interest in its collateral is not adequately
8 protected. The Debtor's records indicate that the aggregate amount of its uncollected accounts
9 receivable from the Hourly Cases, together with its cash and cash equivalents (excluding certain
10 restricted cash, as well as foreign cash and receivables that it may not be able to repatriate back
11 to the U.S.), aggregate approximately \$37.9 million as of September 14, 2011, which is less than
12 the remaining principal amount of Citibank's secured debt even before discounting such
13 accounts receivable for the Debtor's likelihood of collection. In fact, I believe the Debtor is
14 unlikely to collect a substantial portion of its remaining accounts receivable, especially in light of
15 the overwhelming percentage of such receivables that are more than 91 days old.. I believe this
16 is most likely because the Debtor was able to successfully monetize its higher-quality accounts
17 receivable early in the case, which has now left it with receivables that will likely be more
18 difficult to monetize. Indeed, \$32.7 million of the Debtor's \$33.3 million in total outstanding
19 U.S. accounts receivable, or approximately 98.2%, are more than 91 days old.

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22 5. In addition, the Debtor has consistently failed to meet its projected estimates of
23 future collections of accounts receivable in Hourly Cases, and the rate of such collections has
24 precipitously declined since commencement of the Chapter 11 Case. Indeed, since the Petition
25 Date, the Debtor has only actually collected approximately 50% of its projected collections over
26 such period.
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1 6. I also believe that any recovery on the Debtor's other assets, including the
2 Contingent Cases, is too speculative to ascribe any significant value to for purposes of assessing
3 adequate protection of Citibank's interest at this juncture. Recent events with respect to one of
4 the Contingent Cases – *In re Southeastern Milk Antitrust Litigation* – Master File No. 2:08-MD-
5 1000 (E.D. Tenn.) ("SE Milk") – demonstrate the unpredictable nature of such cases, and
6 accordingly the uncertainty regarding the amount and timing of the Debtor's ultimate recovery
7 with respect thereto. Upon information and belief, on July 12, 2011, approximately one month
8 before the first scheduled trial date, the class plaintiffs in SE Milk filed a motion for preliminary
9 approval of a proposed settlement with Dean Foods, Inc. ("Dean Foods"), one of the principal
10 defendants in SE Milk (the "Dean Settlement"). Pursuant to the Dean Settlement, Dean Foods
11 agreed to pay the class plaintiffs (i) \$60 million upon court-approval of the Dean Settlement and
12 (ii) \$20 million per year for the following four years thereafter, for total settlement value of
13 approximately \$140 million.
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16 7. Unfortunately, upon information and belief the District Court in SE Milk
17 thereafter issued an order decertifying a portion of the plaintiff class, leading Dean Foods to
18 move to vacate the Dean Settlement on August 5, 2011. Upon information and belief, the
19 District Court entered an order vacating the Dean Settlement on August 19, 2011. As a result of
20 these and other case developments, the District Court has delayed commencement of the SE
21 Milk trial indefinitely. These recent events demonstrate the speculative and uncertain nature of
22 Howrey's possible future recovery from such Contingent Cases, and why it is impossible to
23 ascribe any value to such cases at this juncture.
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1 I declare under penalty of perjury under the laws of the United States that the
2 foregoing is true and correct.

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4 Executed this ____ day of September, 2011.

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7 G. Michael Verdisco
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1 I declare under penalty of perjury under the laws of the United States that the
2 foregoing is true and correct.
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5 Executed this 15 day of September, 2011.

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8 G. Michael Verdisco
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